

Message Text

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SUBJECT: GOVERNMENT PROPOSES NEW MEASURE TO REPLACE 1976
ECONOMIC RECOVERY ACT

REF: BRUSSELS 11549

1. SUMMARY: FIRST REPORTS INDICATE THAT THE NEW MEASURE PLANNED TO REPLACE THE EXPIRING ECONOMIC RECOVERY LAW OF 1976 WILL BE WEAKER THAN ITS PREDECESSOR WITH RESPECT TO THE DAMPENING OF NEGOTIATED WAGE INCREASES. BUT NEITHER THIS FACT NOR THE FAILURE OF THE SOCIAL PARTNERS TO REACH AN INTER-INDUSTRY ACCORD FOR 1977 ARE SURE HARBINGERS OF INORDINATE WAGE DEMANDS. BOTH TRADE UNION LEADERS HOUTHUYS (CSC) AND DEBUNNE (FGTB) HAVE SIGNALLED AWARENESS OF THE NEED OF RESTRAINT. MOREOVER, RECENT SETTLEMENTS COVERING SOME 800,000 WORKERS HAVE AVERAGED A MODEST 3 PCT. IT REMAINS TO BE SEEN WHETHER SUBSEQUENT SETTLEMENTS WILL FOLLOW THAT PATTERN. END SUMMARY.

2. FOLLOWING THE FAILURE LAST WEEK OF LABOR AND MANAGEMENT TO CONCLUDE AN INTER-INDUSTRY ACCORD, THE GOVERNMENT ON DECEMBER 3 ANNOUNCED ITS INTENTION TO PROPOSE A NEW ECONOMIC RECOVERY LAW TO REPLACE THE 1976 MEASURE WHICH WILL EXPIRE DECEMBER 31. THE NEW MEASURE IS
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TO BE SUBMITTED TO THE PARLIAMENT THIS WEEK WITH HOPES

THAT IT CAN BE PASSED BEFORE JANUARY 1. ALTHOUGH THE FINAL TEXT OF THE PROPOSED LAW IS NOT YET AVAILABLE, FIRST REPORTS INDICATE THAT IT WILL BE WEAKER THAN ITS PREDECESSOR. RATHER THAN BEING FROZEN AS IN 1976, RENTS, DIVIDENDS AND FIXED PROFESSIONAL FEES WILL BE PERMITTED TO INCREASE UP TO 8.5 PCT IN 1977. THE EXCLUSION FROM AUTOMATIC INDEXATION OF WAGES IN EXCESS OF BF 41,250 (ABOUT \$1100) A MONTH PROVIDED IN THE 1976 LAW WILL APPARENTLY NOT BE RENEWED. IT APPEARS THAT SPECIAL CORPORATE TAX PENALTIES WHICH HAVE BEEN IN FORCE THIS YEAR WILL BE DROPPED. THESE MEASURES, INTENDED TO FINANCE A PECIAL PENSION FUND, OPERATED EFFECTIVELY TO DISCOURAGE NEGOTIATED WAGE INCREASES; IT IS NOT CLEAR AT THIS POINT WHETHER THE FUND ITSELF WILL ALSO BE DISCONTINUED (SEE 75 BRUSSELS 10252 AND 10705).

3. THE GOVERNMENT HAS INDICATED THAT IT WILL RESERVE THE RIGHT TO INTERVENE, HOWEVER, IN THE CASE OF INFLATIONARY WAGE SETTLEMENTS AT THE SECTOR OR PLANT LEVEL. ITS PRINCIPAL MEANS APPEAR TO BE REFUSAL OF REQUESTS FOR PRICE INCREASES WHICH ARE BASED ON OVERLY-GENEROUS WAGE INCREASES, AND POSSIBLE WITHHOLDING OF INVESTMENT AID AND GOVERNMENT ORDERS FROM FIRMS ACCEPTING SUCH WAGE AND SALARY SETTLEMENTS. THE GOVERNMENTS MAIN RELIANCE WILL HOWEVER BE NOT ON MUSCLE, BUT ON THE GOOD WILL OF THE SOCIAL PARTNERS, AS EXPRESSED IN LAST WEEK'S INTER-INDUSTRY DECLARATION WHICH REPLACED AN ABORTIVE LABOR-MANAGEMENT ACCORD FOR 1977. THE DECLARATION REPORTED THE PARTNERS' PRESENT INABILITY TO REACH AGREEMENT AND NOTED THEIR DETERMINATION TO MAINTAIN CONTACT WITH A VIEW TO WORKING OUT AN EVENTUAL ACCORD. THE PARTIES ALSO RECORDED THEIR CONCERN OVER THE PROBLEMS OF UNEMPLOYMENT AND INFLATION AND AGREED TO SUPPORT MEASURES DESIGNED TO DEAL WITH BOTH THEIR COUASES AND THEIR EFFECTS.

4. EMBASSY WILL REPORT MORE FULLY ON PROPOSED 1977 MEASURE WHEN MORE DETAILS BECOME AVAILABLE.

5. COMMENT: SEVERAL FACTORS PRECLUDE THE CONTINUATION LIMITED OFFICIAL USE

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OF CURRENT INCOME CONTROLS IN 1977: THE PRESENTLU SHAKY STATE OF THE TINDEMANS GOVERNMENT, THE ABSENCE OF THE KIND OF TACIT CSC SUPPORT WHICH MADE THE 1976 LAW POSSIBLE, AND GENERAL WORKER RESTIVENESS WITH STAGNANCY OF REAL INCOMES OVER THE PAST 12 MONTHS (WHITE COLLAR SALARIES HAVE, IN FACT, DROPPED SOMEWHAT IN REAL TERMS). BUT THIS NEW MOOD, AND THE ABSENCE OF AN INTER-INDUSTRY ACCORD, WILL NOT MECESSARILY

MANIFEST THEMSELVES IN INFLATIONARY WAGE DEMANDS.
APART FROM THE DECLARATION ITSELF, BOTH UNION LEADERS
(HOUTHUYS AND DEBUNNE) HAVE INDICATED AN AWARENESS OF
THE NEED OF RESTRAINT. THE CHANCES ARE FAIR THAT
THIS AWARENESS AT THE NATIONAL LEVEL, PLUS CONTINUING
HIGH UNEMPLOYMENT (CURRENTLY 9.2 PCT), WILL TRANSLATE INTO
MODERATION AT THE SECTOR AND PLANT LEVELS. IN FACT,
MODERATION IS ALREADY EVIDENT IN THE AVERAGE 3PCT PER
ANNUM NEGOTIATED INCREASE IN SETTLEMENTS (COVERING
SOME 800,000 WORKERS) ARRIVED AT THUS FAR THIS FALL.
CSC PRESIDENT HOUTHUYS HAS SAID PRIVATELY THAT, THOUGH
SETTLEMENTS CAN BE EXPECTED TO VARY WITH THE VARIOUS
SECTORS' ABILITY TO PAY, THE OVERALL INCREASE COULD
APPROXIMATE THE 3 PCT FIGURE. FOR HIM, THE REAL QUESTION,
SO FAR AS LABOR COSTS ARE CONCERNED, IS WHAT WILL
HAPPEN TO THE CONSUMER PRICE INDEX WHICH, THROUGH BELGIUM'S
SYSTEM OF AUTOMATIC WAGE INDEXATION, HAS GENERATED
MOST OF THE COUNTRY'S WAGE INCREASES IN RECENT YEARS.FIRESTONE

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